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MULTILATERAL INVESTMENT FUND

**CHILE**

**ADOPTION OF CORPORATE SOCIAL RESPONSIBILITY  
PRACTICES IN SMALL AND MEDIUM-SIZED ENTERPRISES**

**(TC-03-05-03-2)**

**DONORS MEMORANDUM**

This document was prepared by the project team consisting of: Nybia Laguarda (RE1/SC1), Project Team Leader; Carolin Crabbe (RE1/FI1); Daniel Shepherd (MIF); Patricio Diaz Lucarelli (COF/CCH); Maria Luisa Lepine (Consultant); and Marcelo Cerna (LEG/OPR).

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## **BASIC SOCIOECONOMIC DATA**

Basic socioeconomic data for Chile are available at the following web site:

<http://www.iadb.org/res/index.cfm?fuseaction=externallinks.countrydata>

### **INFORMATION AVAILABLE IN THE TECHNICAL FILES**

1. Cost recovery
2. Operating Regulations and itemized list of activities
3. Timetable for project activities
4. Terms of reference for project staff
5. Project's organizational structure
6. Model contract for firms receiving technical assistance
7. Draft agreement between Vincular-PUCV and organizations representing the main sectors
8. Description of certification system and methodology
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## ABBREVIATIONS

ACHS	Asociación Chilena de Seguridad [Chilean Safety Association]
ASEXMA	Asociación de Exportadores de Manufacturas y de Servicios [Association of Manufactures and Services Exporters]
ASOEX	Asociación de Exportadores [Association of Exporters]
CCC-BC	Center for Corporate Citizenship at Boston College
CCV	Corporación Chilena del Vino [Chilean Wine Corporation]
CORFO	Corporación de Fomento de la Producción [Corporation for the Development of Production]
CSR	Corporate social responsibility
FEDEFruta	Federación de Productores de Frutas de Chile [Fruit Exporters Federation of Chile]
MIF	Multilateral Investment Fund
SMEs	Small and medium-sized enterprises
SOFOFA	Sociedad de Fomento Fabril [Federation of Chilean Industry]

**ADOPTION OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN SMALL  
AND MEDIUM-SIZED ENTERPRISES  
(TC-03-05-03-2)**

**I. EXECUTIVE SUMMARY**

<b>Executing agency and beneficiary:</b>	Pontificia Universidad Católica de Valparaíso [Catholic University of Valparaiso] (PUCV) through its Corporate Social Leadership Center (Vincular-PUCV)	
<b>Beneficiaries:</b>	The project's beneficiaries will include: (i) 150 small and medium-sized enterprises (SMEs) that will reap the benefits of applying the principles of corporate social responsibility (CSR) in their firms; (ii) 40 consultants who will be trained in CSR; (iii) 30 local consultants who will be certified in CSR; and (iv) 1,200 representatives of companies, government, and business associations that will be sensitized to the benefits of CSR and the project's outcomes.	
<b>Objective:</b>	The overall objective is to boost the competitiveness of small and medium-sized Chilean enterprises. The project's aim is to incorporate CSR into business strategies as a management system for small and medium-sized Chilean enterprises, thereby maximizing both private and social benefits.	
<b>Description:</b>	This objective will be achieved by executing the following components: (i) development of local supply and business firms' in-house CSR capabilities; (ii) CSR advisory assistance for SMEs; (iii) promotion of CSR and dissemination of outputs.	
<b>Financing:</b>	Method: Nonreimbursable (Small Enterprise Development Facility–IIIA)	
<b>Amount and source:</b>	MIF:	US\$1,250,000
	Local contribution:	<u>US\$1,250,000</u>
	Total:	US\$2,500,000
<b>Timetable:</b>	Execution: 48 months Disbursement: 54 months	
<b>Environmental and social review:</b>	The Committee on Environment and Social Impact (CESI) reviewed and approved the project abstract when it met on 17 October 2003 without further comment.	

<b>Special contractual conditions:</b>	As conditions precedent to the first disbursement, Vincular must have submitted the following documents to the Bank for its approval: (i) agreements signed with FEDEFruta, ASOEX, ASEXMA and CCV; and (ii) a work plan for the first year of the project's implementation.
<b>Coordination with other development institutions:</b>	N/A
<b>Exceptions to Bank policies and procedures:</b>	N/A

## **II. BACKGROUND AND RATIONALE**

### **A. Corporate social responsibility (CSR)**

- 2.1 Corporate social responsibility (CSR) is a comprehensive business management strategy that focuses on ethics, people, communities, and the environment. By increasing corporate management's value added, this strategy helps firms improve their competitive position. Firms that adopt CSR are actively involved in contributing to the countries' economic, social, and environmental development. Firms using this strategy therefore take responsibility for everything that they can do to improve their surroundings and, hence, their prospects.
- 2.2 CSR opens up an entirely new way of doing business. Numerous studies have provided empirical evidence of the positive correlation between CSR practices and firms' profitability. CSR has two dimensions: an internal one, which encompasses such areas as human resources management and occupational health and safety, and an external dimension, which takes in such elements as trading partners, suppliers and consumers, local communities, human rights, and the environment. Overall, CSR practices provide business advantages for companies of all sorts, although their specific benefits may vary from one type of firm to the next. In the case of small and medium-sized enterprises (SMEs), a great deal of emphasis is placed on cost savings, but CSR may also boost such firms' earnings and give them greater market access.
- 2.3 When enterprises that are engaging in CSR activities see an increase in their profit ratio and improvements in competitiveness and sustainability, then CSR starts to become an integral component of their business strategy, and the focus shifts away from a philanthropic approach whereby firms undertake charitable acts simply to benefit the surrounding community. CSR is becoming firmly established in the

world of today as an important, high-impact tool for implementing companies' business strategies. The concept is being widely embraced in the European Union, Canada, and the United States while, in Latin America, it has been gaining ground in such countries as Brazil, Chile, and Mexico.

- 2.4 Viewed from another vantage point, it should be noted that—as also happened first with quality management and then with environmental protection—if Latin American businesses fail to adopt this approach, its absence may come to represent a new non-tariff barrier to their exports. In the United States, Canada, Japan, and the European Union, it is becoming quite common to demand that firms maintain socially responsible standards of conduct, and it is therefore quite probable that, over the medium term, these companies will begin to demand that their suppliers meet the same standards. At the international level, as tariffs have gradually been lowered, non-tariff barriers have become countries' instrument of choice for erecting trade barriers and protecting their industries. Export firms that are able to show that they uphold CSR standards and base their management practices on them enjoy greater market access and occasionally obtain better prices for their products.

## **B. CSR in Chile**

- 2.5 The free trade agreement that Chile has signed with the European Union provides Chile with entry to a market of 370 million people. The consumers making up this market have a great deal of purchasing power, but they also demand high standards of quality. This poses new challenges for many firms that will need to improve their products, services and standards as well as upgrade their CSR practices, since this is an area in which European consumers are more demanding than their Latin American counterparts. By the same token, the free trade agreement recently negotiated between Chile and the United States includes specific provisions regarding labor conditions and environmental performance.
- 2.6 There are institutions in Chile that are working to promote CSR through information and awareness-raising activities oriented toward business enterprises and the general public. Some of the most noteworthy initiatives in this area are those being carried out by the nonprofit organizations Acción Empresarial [“Business in Action”] and Prohumana [“Pro-People”]. Acción Empresarial has more than 40 active corporate members, including the Asociación Chilena de Seguridad [Chilean Safety Association] (ACHS), Banco Santander, Deutsche Bank, Shell, Xerox, AES-Gener, Bank Boston, Coca-Cola Chile, Compaq, Procter & Gamble, and others. It focuses on promoting CSR and developing useful tools and information for its members and business in general.
- 2.7 Prohumana is the nongovernmental think tank that published the results of the MORI survey in 2002, which was directed at finding out what Chileans think about CSR. The survey's main findings were as follows: (i) 85% of the respondents said



that they respect a company more if it speaks out in favor of social responsibility; (ii) 50% of the respondents think that firms would sell more if they implemented CSR and recognized the existence of a link between this issue and firms' profitability; and (iii) 51% of the persons surveyed believe that they, as consumers, can influence how responsible a firm's behavior will be.

- 2.8 In 2001, the Pontificia Universidad Católica de Valparaíso [Catholic University of Valparaíso] (PUCV) founded the Corporate Social Leadership Center (Vincular–PUCV). This initiative is wholly devoted to efforts to promote corporate social leadership in national and international firms. In May 2002, Vincular formed a strategic partnership with the Center for Corporate Citizenship at Boston College (CCC-BC) (<http://www.bc.edu/corporatecitizenship>), one of the United States' major CSR centers. This partnership has provided a channel for the transfer of know-how from the CCC-BC to the staff of Vincular–PUCV via training programs, consultancies, and research dealing with the social responsibility of business enterprises. This expertise has been used with large-scale corporate clients in Chile, and a substantial amount of experience in this field has now been gained.

### **C. Private-sector interest in CSR in Chile**

- 2.9 Some employers' associations, such as the Federación de Exportadores de Fruta de Chile [Fruit Exporters Federation of Chile] (FEDEFRUTA), the Asociación de Exportadores [Association of Exporters] (ASOEX), and the Corporación Chilena del Vino [Chilean Wine Corporation] (CCV), are promoting CSR principles among their members. These associations have made explicit reference to the difficulties involved in mainstreaming these practices into their sectors' production chains (especially in the case of SMEs) but they are aware that CSR will inevitably have to be phased into firms' management systems in order for those firms to remain competitive.
- 2.10 Although there is some awareness in Chile of how important CSR is and although there are firms that want to contribute to their surrounding communities, the level of that awareness among SMEs and the degree to which they have adopted CSR practices are as yet quite low. Steps therefore need to be taken to deepen their understanding of the relationship between CSR and profitability and of CSR's impact in terms of firms' competitiveness. At present, the governmental Corporación de Fomento [Corporation for Development] (CORFO) is working on a basic management model for SMEs in Chile which will incorporate elements of CSR. This model is being developed jointly by the Centro Nacional de la Productividad y Calidad [National Center for Productivity and Quality] (CNPC) and the Instituto Nacional de Normalización [National Standardization Institute] (INN), and it is expected to become a standard for SMEs in Chile.

**D. Proposed project**

- 2.11 The proposed project will incorporate CSR into firms' policies, objectives, and business strategies. These companies' investment plans would therefore reflect the CSR perspective as well. The project will encourage Chilean SMEs to adopt CSR by developing a financing scheme to cover part of the cost of its implementation. Since CSR is just beginning to gain ground in the country, the MIF's support for this project is important in order to expedite the use of CSR as a tool for making businesses more competitive. One innovative aspect of this project is that it will contribute to the design, implementation, and start-up of social responsibility indicators, which will boost the quality of verification of CSR in businesses. A demonstration and multiplier effect will be achieved by disseminating project outcomes.

**E. Relationship with other Bank activities**

- 2.12 Acción Empresarial [Business in Action], in coordination with the Forum EMPRESA [Business Forum] regional alliance, is the executing agency for a MIF regional CSR initiative that includes Chile. This undertaking, however, focuses more closely on promoting the concept of CSR and includes a number of workshops for representatives of companies, nongovernmental organizations, universities, and government agencies. These activities will be valuable complements to this operation. This regional project would implement CSR practices in SMEs only in El Salvador, Peru, and Brazil. Acción Empresarial has made a commitment to participate in this project as a member of the project's advisory board (see paragraph 5.3), which will help to ensure coordination and complementarity between the two initiatives.
- 2.13 In September 2002 the Bank held a conference entitled "Alliances for Development" in Miami in response to the request made by the governments that met at the Summit of the Americas in Quebec in 2001 to engage representatives of governments, civil society, and especially entrepreneurs in a dialogue about CSR. At the conference in Miami, knowledge about key areas of CSR was developed, and a forum was created to provide an opportunity to exchange views, share experiences, and build trust among governments, business enterprises, and civil society. In addition, the IDB Group has taken on a leadership role in promoting CSR in the region, including holding another conference in Panama in October 2003, which focused on CSR as a tool for enhancing competitiveness.

### **III. PROJECT OBJECTIVES AND COMPONENTS**

#### **A. Project objectives**

- 3.1 The overall objective is to increase the competitiveness of Chilean SMEs. The project's aim is to succeed in having CSR incorporated into firms' business strategies as a management system for Chilean SMEs, maximizing their individual and social profitability.
- 3.2 This objective is to be achieved through execution of the following components: (i) development of the local supply and firms' in-house CSR capabilities; (ii) provision of advisory assistance to SMEs regarding CSR; and (iii) promotion of CSR and dissemination of project outputs.

#### **B. Project components**

##### **1. Component I: Development of local supply and business firms' in-house CSR capabilities (MIF: US\$42,000; local contribution: US\$65,240).**

- 3.3 This component's objective is to develop local capabilities of CSR service providers and to transfer understanding of CSR to entrepreneurs. To this end, the following activities have been planned: (i) development and implementation of a certification system for CSR consultants; (ii) establishment of a database for the registration of consultants; (iii) CSR training for specialists in specific fields; (iv) training of CSR consultants; and (v) establishment of an in-house capacity within the relevant business firms.
- 3.4 To ensure the quality of the CSR services offered by the consultants trained under this project, as well as those who are already in the market, a certification methodology will be developed with a view to establishing a pool of service providers who are accredited by Vincular-PUCV. The purpose of certification will be to guarantee satisfactory outcomes by ensuring that the services provided by CSR consultants will meet specified quality standards. A roster of accredited consultants will be drawn up and posted on the Internet so that it can be referred to by the companies that engage consultants. Another tool for helping to ensure the quality of CSR service providers will be the provision of training to sector specialists on the subject who will be responsible for sharing that knowledge with consultants and for monitoring the quality of service provided by consultants to firms wishing to implement CSR practices.
- 3.5 The specialists in specific fields will provide consultants with technical training to support and facilitate the implementation of CSR practices. The consultant training activities will include both theoretical and practical segments, with the latter being based on pilot studies during which the trainees will be accompanied by specialists. The participants in these courses will have to pay for them. Trainee selection

criteria will include: (i) prior experience in CSR-related areas and/or management systems; and (ii) current registration in the relevant categories of the CORFO consultants roster. This second criterion will take advantage of the existing system for the selection of consultants.

- 3.6 In view of the fact that the concept of CSR is not widely known among entrepreneurs in Chile, two types of training activities will be conducted: a basic CSR course and a specialized course. In the basic courses, seminars for senior corporate executives will help raise CSR awareness and ensure that the persons at the helm of these institutions make a commitment to the aims of CSR. The specialized courses will delve more deeply into CSR concepts and methodologies and will be designed for the professional staff and/or executives who are responsible for this area in their companies and will be supervising the work done by the CSR consultant (see paragraph 3.10 and 3.11). Participants in the specialized courses will have to pay a fee for the instruction they receive.

**2. Component II: CSR advisory assistance for SMEs (MIF: US\$745,060; local contribution: US\$901,740)**

- 3.7 The purpose of this component is to demonstrate the technical and economic viability of CSR as an important element in enhancing business enterprises' competitiveness through the incorporation of CSR into their strategies and management systems. The project provides for the start-up of a matching grants mechanism to facilitate the implementation of CSR in SMEs. Since the implementation costs are to be shared, it is expected that the SMEs will not only be interested in participating in the project but will also be committed to putting the recommendations into effect. Accordingly, the project will involve two different categories of SMEs: a pilot group and a group to be phased in later.
- 3.8 During the first year, diagnostic assessments will be conducted in order to define basic CSR benchmarks in three major production sectors (fruit, wine, and manufactures). As part of this baseline evaluation, national benchmarks will be developed and a sector benchmark will be defined on the basis of a comparative analysis of best practices in the sector in at least three countries that have played a pioneering role in the sector concerned. From the second year on, one more sector will be added each year, for a total of six production sectors. The criteria used to select the sectors will be as follows: (i) major export-producing sectors; and (ii) the presence of sensitized professional associations that have expressed interest in incorporating CSR into their business systems.
- 3.9 One of the project's first activities will be to develop a methodology for mainstreaming CSR practices into an SME management system. The CSR strategy will be outlined, guidelines for its implementation formulated, and a manual for each company participating in the operation prepared. As a tie-in with this activity,

a consultant will be engaged to develop basic benchmarks and a methodology for assessing the results in each of the firms participating in this component.

- 3.10 Pilot studies will be undertaken in five companies in each of the three sectors to be covered during the first year (see paragraph 3.8); from the second year on, a pilot study will be conducted in five companies in the new sector that is to be added each year. The selection criteria for the firms to be included in the pilot study will be: (i) they should be recognized business leaders; and (ii) they should show a willingness to share the lessons learned. The firms in the pilot group will have to pay only 10% of the cost of the technical assistance they receive. Once the pilot study in the sector is completed, the group may be enlarged to include 10 additional companies. Under the support system for the SMEs participating in the enlarged group, the project will cover 70% of the cost and the individual firms will pay the remaining 30%. The maximum amount that any firm may receive from the project will be set at US\$8,000.
- 3.11 A four-stage procedure will be used to implement CSR in each of the participating firms. The first stage will consist of a diagnostic study performed by a consultant in the field for the purpose of establishing a baseline for the measurement of progress in CSR implementation, organizational processes, the definition of strategic CSR objectives, and the determination of the expectations of corporate stakeholders. The second stage will focus on the formulation of a strategic CSR plan. This plan will define the firm's CSR strategy, determine what specific CSR programs are to be used, design indicators for quantifying achievement of strategic objectives, and design a communication strategy for project activities. During the third stage, there will be a follow-up of each company to see what progress has been made. At the end of each of these phases, a roundtable will be held in order to evaluate and learn from the experience with a view to contributing to subsequent stages in the process. During the final stage, an outside adviser will visit each company to measure the results and the progress made in implementing CSR practices (see paragraph 3.9).
- 3.12 A total of 30 firms from six different sectors are to take part in the pilot group, and 120 companies are to be added to the enlarged groups; thus, a total of 150 SMEs will be involved in implementing CSR practices. Other criteria to be used in selecting these firms will include the following: (i) a formally-established small or medium-sized enterprise (less than US\$5 million in annual sales and fewer than 100 employees); (ii) designation of a project leader in the firm that will be responsible for the program; (iii) commitment to implement the options that are identified; (iv) a willingness to pay part of the cost of the technical assistance to be provided; (v) commitment and full participation on the part of management.

### **3. Component III: Promotion of CSR and dissemination of outputs (MIF: US\$71,450; local contribution: US\$138,550)**

- 3.13 This component's objective is to promote the concept of CSR and disseminate the project's outputs. To this end, the following activities are planned: (i) an information and promotional campaign; (ii) a seminar to launch the project; (iii) sector-based awareness-raising workshops; (iv) participation in fairs and conferences; and (v) conferences and/or lectures for the purpose of disseminating the project's outputs.
- 3.14 An agency specializing in communications will be engaged to design a promotional campaign. This plan is to include the design of the corresponding image, promotion of project activities via the media, construction and maintenance of an Internet site, and the preparation of materials for use in disseminating information on CSR and the project.
- 3.15 In order to inform as many potential beneficiaries about the project as possible, a seminar to kick off the project will be held for representatives of industry, government agencies, the financial sector, and members of the press. Similarly, awareness-raising seminars will be organized and conducted in various regions of the country.
- 3.16 Vincular staff will participate in major national and international conferences on CSR in order to keep their skills up to date. The operation will also be promoted and information will be provided on its activities at the trade fairs held by each of the participating production sectors. Two conferences will be organized in order to disseminate the outcomes of the project: one midway through the second year and one at the end of the project.

## **IV. COSTS AND FINANCING**

### **Budget (in US\$)**

<b>Components</b>	<b>MIF</b>	<b>Local</b>	<b>Total</b>	<b>%</b>
Development of local supply and in-house CSR capabilities	42,000	65,240	107,240	4.3
CSR advisory assistance for SMEs	745,060	901,740	1,646,800	65.9
Promotion of CSR and dissemination of outputs	71,450	138,550	210,000	8.4
Administration	284,230	88,700	369,930	14.8
Evaluation	50,000	--	50,000	2.0
Financial auditing	12,000	--	12,000	0.5
Contingencies	48,260	55,770	104,030	4.2
<b>TOTAL</b>	<b>1,250,000</b>	<b>1,250,000</b>	<b>2,500,000</b>	<b>100.0</b>

- 4.1 The total cost of the project is estimated at US\$2.5 million. The breakdown of this sum is as follows: (i) up to US\$1.25 million to be provided by the Bank from MIF resources (a nonreimbursable disbursement from the Small Enterprise Development Facility – Window IIIA); and (ii) US\$1.25 million in matching funds from Pontificia Universidad Católica de Valparaíso (PUCV), through its Corporate Social Leadership Center (Vincular-PUCV), of which at least one half is to be in the form of a cash payment. An overview of the main items of expenditure and project financing is shown above.
- 4.2 **Sustainability.** The project's sustainability will hinge upon the extent of interest in and demand for CSR on the part of private firms and upon the project's success in consolidating a pool of service providers. The funds garnered from the fees paid for consultancy training and certification programs will be reinvested in additional training activities for local consultants and SMEs. An analysis of project finances indicates that Vincular-PUCV will have sufficient institutional capacity and funds to continue its consultant certification and training activities even after the project's resources have been exhausted (see Technical File No. 1). The pool of trained local consultants can also be expected to continue offering their services as instructors and consultants to other local firms that want to implement CSR. In addition, CORFO has decided that, within the context of this project, CSR is eligible for its productive-sector development schemes. This ensures that, if this experience is a successful one, CSR will be incorporated into the country's production development policy.

## **V. EXECUTING AGENCY AND IMPLEMENTATION MECHANISM**

### **A. Executing agency**

- 5.1 The executing agency for this project is the Pontificia Universidad Católica de Valparaíso, through its Corporate Social Leadership Center (Vincular-PUCV). Vincular-PUCV's mission is to promote the application of concepts and methodologies that foster competitiveness and productivity in enterprises that produce goods and services in an efficient manner, while at the same time creating an awareness of the need for prevention and generating environmental benefits. Vincular-PUCV currently has eight full-time technical staff members, two employees working in its administrative unit, and a team of consultants whose services it engages for specific tasks. Vincular-PUCV has experience in charging for its services, especially in the case of training and technical assistance. This experience and arrangement will help ensure the sustainability of these activities once the project is completed.

## **B. Implementation mechanism**

- 5.2 A manager, an administrative officer, and an assistant will be assigned to work on project execution out of the Vincular–PUCV offices. The manager will be in charge of: (i) managing project activities based on the plan of action; (ii) monitoring the execution of the project and budget management using established procedures; (iii) processing requests for the disbursement of the Bank’s contribution; (iv) preparing statements of account showing what funds have been used; and (v) drafting and submitting administrative and technical reports to the Bank. The manager will be supervised by the Executive Director of Vincular–PUCV.
- 5.3 An advisory board will be established for the project. Representatives of the PUCV, the Sociedad de Fomento Fabril [Federation of Chilean Industry] (SOFOFA), Acción Empresarial, FEDEFruta, the CCV, ASEXMA, ASOEX and other institutions will sit on this board, which will be in charge of: (i) approving the annual work plan; (ii) monitoring the outcome of project activities; and (iii) ensuring that the organizations they represent are actively involved in the work of the project.
- 5.4 The timeframe for the project’s implementation will be 48 months; disbursements will be made over a period of 54 months. The Bank will set up a revolving fund containing a maximum of 10% of the total amount approved for the project. Vincular–PUCV will be in charge of procurement and of engaging the necessary consulting services in accordance with the Bank’s and the MIF’s procedures and policies regarding these matters.
- 5.5 **Degree of readiness.** The project design, budget, and activities have been developed in conjunction with the program participants. The availability of the matching funds has been confirmed. Vincular-PUCV is well along in the implementation of a number of preparatory activities for the program. A draft of the project’s Operating Regulations has been written up (see Technical File No. 2). Vincular–PUCV has also drawn up a draft of the agreement to be signed with organizations representing the major sectors involved in this project (see Technical File No. 7).

## **VI. BENEFITS AND RISKS**

### **A. Benefits**

- 6.1 A local supply of consulting services will be created to facilitate the inclusion of CSR as a management tool in SME business strategies. As a result, these firms will have integrated the concept of CSR and identified the main challenges to be overcome in order to incorporate a commitment to CSR into the way they do business. As a general rule, firms that adopt management approaches based on CSR



obtain the following benefits: (i) better financial performance; (ii) lower operating costs; (iii) an improved image and reputation (clients are often attracted to brands and companies that enjoy a good reputation in CSR-related areas); (iv) increased sales and customer loyalty (research shows that there is a growing market for products and services offered by companies regarded as being socially responsible); (v) higher productivity and quality; (vi) increased ability to attract and retain employees; (vii) greater access to capital (there is more interest and more opportunities for investing in socially responsible firms); and (viii) increased access to international markets.

## **B. Beneficiaries**

- 6.2 The project's beneficiaries will include: (i) 150 SMEs that will reap the benefits of applying the principles of CSR in their firms; (ii) 40 consultants who will be trained in CSR; (iii) 30 local consultants who will be certified in CSR; and (iv) 1,200 representatives of companies, government, and business associations that will be sensitized to the benefits of CSR and the project's outcomes.

## **C. Risks**

- 6.3 The following risks have been identified: the quality of service provided by the consultants trained by the project may not meet the required standards. In order to mitigate this risk, the operation calls for the design and implementation of a CSR consultant certification scheme that will ensure a specified standard of quality. Another risk is that firms may not be sufficiently interested in participating in the project. In order to mitigate this risk, representative organizations, such as FEDEFruta, ASOEX, ASEXMA and the CCV, were involved in designing the project.

# **VII. MONITORING AND EVALUATION**

## **A. Oversight and monitoring**

- 7.1 The Bank's Country Office in Chile will be responsible for project oversight and monitoring, with technical support by the project team. The Country Office, with assistance from the project team and Vincular, will conduct annual project performance reviews based on the reports submitted by Vincular to determine the extent to which project objectives have been achieved. Vincular-PUCV will be responsible for compiling and analyzing the information needed to monitor the project's progress, which will be measured by the main indicators as set out in the logical framework attached as Annex I or as modified by common accord between the Bank and Vincular-PUCV. These benchmarks will be used in supervising and evaluating the project and will take them into account in preparing semi-annual progress reports as well as the midterm review and final evaluation.

## **B. Evaluations**

- 7.2 The Bank will use project funds to engage external consultants to conduct a midterm review and a final evaluation. The midterm review will be undertaken approximately 24 months after the project has been declared eligible for disbursements or when 50% of the project's resources have been disbursed. The final evaluation will be carried out after the period stipulated for the project's implementation has ended. The terms of reference for these assessments will be drawn up by the Bank in collaboration with Vincular-PUCV. The midterm review will look at how far the project has progressed and will analyze overall project performance, with special emphasis on: (i) the efficacy of the consultant certification scheme and specific recommendations as to how its structure might be improved, if necessary; (ii) the effectiveness and impact of awareness-raising events in increasing the demand for such services; and (iii) users' degree of satisfaction with project services (participants in training courses, firms taking part in Component II, etc.). Based on the findings of this analysis, adjustments in the way the remaining funds are to be used will be recommended where necessary.
- 7.3 For the final evaluation, the external consultants will determine: (i) whether the certification of consultants trained during the project has had an impact on the fees they charge for their services and whether or not it has helped to increase their job opportunities; (ii) what percentage of the recommendations have been implemented as a result of the strategic plans developed by firms participating in Component II; (iii) what specific benefits the firms that now have a CSR system have obtained; and (iv) the geographic scope of the project's activities.
- 7.4 The consultants will use the logical framework as set forth in Annex I or as modified by common accord between the Bank and Vincular-PUCV and the evaluations conducted for each CSR strategy adopted in the firms taking part in Component II. Vincular-PUCV will provide access to all the information and documentation needed to carry out these evaluations.

## **VIII. ENVIRONMENTAL AND SOCIAL IMPACTS**

- 8.1 This operation is expected to have positive environmental and social impacts. CSR activities are, by definition, related to occupational health and safety, the prevention of environmental pollution, the well-being of the community, and other social and environmental matters. Accordingly, this project is expected to encourage firms to implement more activities of this sort, thereby improving their public image in the eyes of consumers, expanding their market, optimizing resource use, and enhancing the impact of public policy on social and environmental issues.

**ADOPTION OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN SMALL AND MEDIUM-SIZED ENTERPRISES (TC-03-05-03-2)**  
**LOGICAL FRAMEWORK**

Narrative summary	Indicators	Means of verification	Assumptions
<b>GOAL</b>			
Boost the competitiveness of small and medium-sized Chilean enterprises	A 5% increase in established businesses' efficiency	Ex ante and ex post application of business efficiency measurements in participating firms.  The factors of efficiency include: productivity, sales, and market access.	CSR is a tool for enhancing the efficiency and competitiveness of business enterprises.
<b>PURPOSE</b>			
Assist Chilean SMEs to incorporate CSR into their business strategies	An increase of at least 10% in basic CSR indicators among participating SMEs	Strategic CSR planning.  The basic CSR indicators in the country include: business ethics, quality of work life, responsible marketing, environment, and commitment to the community.	Firms will implement CSR activities within a timeframe that will permit their outputs to be measured.
<b>COMPONENTS</b>			
I. Development of local supply and business firms' in-house CSR capabilities	At least 30 consultants certified in CSR  At least 120 entrepreneurs and executives trained in CSR	CSR certification  Reports on courses held (program, instructional materials, list of trainees, and photographic records)	Professionals / consultants are interested in taking part in training activities.
II. CSR advisory assistance for SMEs	At least 150 CSR consultancies carried out	Consultancy contracts  Final report	Business leaders will promote a CSR approach within their companies and in various areas of business activity.
III. Promotion of CSR and dissemination of outputs	At least 300 executives in six export production sectors recognize CSR as a tool for making their firms more competitive	Evaluation instruments for each consultancy applied, with two executives in each SME receiving advisory assistance  Records on each event	The means used to raise awareness and increase knowledge about CSR are suitable and effective for SMEs and other interest groups.

Narrative summary	Indicators	Means of verification	Assumptions
<b>ACTIVITIES</b>			
1.1 Development and implementation of a certification scheme/methodology	A certification system has been designed and is in operation	Manual on the certification system	
1.2 Development of a database/roster of certified consultants	A database is in operation and access to it is available	A roster of certified consultants is available to the public	
1.3 Training of specialists in specific fields and CSR quality assurance officers	Six trained specialists in each sector (three in the first year and one in second, third, and fourth years)	Records of the event (program, information materials, list of participants, and audiovisual records)	
1.4 Training of CSR consultants	Six trained consultants in the first year, and two in the second, third, and fourth years	CSR certification	
1.5 Development of firms' in-house capabilities	Six training events per year	Instructional material Records of the events (program, information materials, list of participants, and audiovisual records)	
2.1 Sector-based CSR diagnostic assessments, to include sector and national benchmarks	Diagnostic assessments and benchmarks for six production sectors	Report on each sector for which a diagnostic assessment has been prepared	
2.2 CSR implementation in pilot groups	CSR implementation in three sectors (five companies in the first year); inclusion of one additional sector in the second, third, and fourth years, with pilot studies being conducted in five firms in each sector	Final reports on consultancy projects	
2.3 Diagnostic studies in SMEs	15 firms the first year, 35 the second, 45 the third year, and 55 in the fourth year	Diagnostic reports	
2.4 Development of a strategic plan	15 firms the first year, 35 the second, 45 the third year, and 55 in the fourth year	CSR master plans	
2.5 Implementation of plan / supervision	15 firms the first year, 35 the second, 45 the third year, and 55 in the fourth year	Instrument for evaluation of implementation	

Narrative summary	Indicators	Means of verification	Assumptions
3.1 Promotional campaign/engagement of an advertising firm (newsletters, pamphlets, posters, Web page)	Completed design of corporate image	Printed materials Web site in operation	
3.2 Project launch	300 persons attending the launch	Records of the events (program, information materials, list of participants, press releases, and audiovisual records)	
3.3 Sector-based awareness-raising workshops (clusters, business associations)	Three workshops during the first year, four in the second, five in the third, and six in the fourth year	Records of the events (program, information materials, list of participants, press releases, and audiovisual records)	
3.4 Formation of partnerships with other agencies	Five national and four international partnerships	Signed agreements	
3.5 Participation in fairs and conferences	Ten events per year	Records of the events (program, information materials, list of participants, press releases, and audiovisual records)	
3.6 Conferences to disseminate project outcomes	Two conferences: one during the second year and one at the time of the project's completion	Records of the events (program, information materials, list of participants, press releases, and audiovisual records)	
3.7 Dissemination of project outputs via the media (journals aimed at specific sectors, newspapers, etc.)	One article in journals catering to each sector per year (three in the first year and six in the second, third, and fourth years)	Publication in specialized journal Publication in mass media	

**ANNEX II – ITEMIZED BUDGET (TC-03-05-03-2)**

VINCULAR-MIF PROJECT	TOTAL			
	MIF	PUCV		Subtotal
		In cash	In kind	
Component 1: Development of local supply and business firms' in-house CSR capabilities				107,240
1. Training facilitators				
- Training courses for facilitators	0	0	16,000	16,000
- Trainer	0	0	2,240	2,240
- Training room	0	0	1,600	1,600
- Evaluation, learning, and refresher seminars	0	0	26,000	26,000
- Preparation of methodological and teaching materials	6,000	0	0	6,000
2. Developing an accreditation system				
- Designing the accreditation system	1,600	0	0	1,600
- Designing and printing stationery	1,000	0	0	1,000
3. Training consultants				
- Teaching materials and training packets, year 1	1,200	0	0	1,200
- Teaching materials and training packets, year 2	400	0	0	400
- Teaching materials and training packets, year 3	400	0	0	400
- Teaching materials and training packets, year 4	400	0	0	400
- Training room	0	0	800	800
- Training consumables	0	0	200	200
4. Developing registry of consultants				
- Software for registry of consultants	1,000	0	0	1,000
- Web master	9,600			9,600
5. Training firms' in-house staff				
- Invitations and follow-up	2,400	0	0	2,400
- International consultant	6,000	0	0	6,000
- Travel expenses	8,000	0	0	8,000
- Per diem	4,000	0	0	4,000
- Rooms	0	7,200	0	7,200
- Participant materials	0	4,000	0	4,000
- Training consumables	0	7,200	0	7,200
Component 2: CSR advisory assistance for SMEs	745,060	901,740	0	1,646,800
1. Sector diagnostic studies on CSR with national and sector benchmarks				
- Visits and interviews with the main sectors	1,600	0	0	1,600
- Transportation expenses and per diem	4,000	0	0	4,000
- International consultant	6,000	0	0	6,000
- Travel expenses	8,000	0	0	8,000
- Per diem	2,000	0	0	2,000
- Analysis, systematization, and scaling	8,000	0	0	8,000
- Experts on the subject	64,800	0	0	64,800
2. Developing a CSR management model in SMEs and Implementation Manual				
- Designing an instrument for evaluating SME competitiveness	3,000	0	0	3,000
- Designing a CSR management model for SMEs	10,000	0	0	10,000
- Designing a sector CSR management model for SMEs	18,000	0	0	18,000
- Designing the sector CSR corporate manual for SMEs	6,000	0	0	6,000

VINCULAR-MIF PROJECT	TOTAL			
	MIF	PUCV		Subtotal
		In cash	In kind	
- Designing the sector consultant manual on CSR for SMEs	6,000	0	0	6,000
- Printing	16,200	0	0	16,200
<b>3. Implementing CSR in pilot groups</b>				
- Financing pilot projects, year 1	47,460	71,190	0	118,650
- Financing pilot projects, year 2	15,820	23,730	0	39,550
- Financing pilot projects, year 3	15,820	23,730	0	39,550
- Financing pilot projects, year 4	15,820	23,730	0	39,550
- Experts on the subject	64,800	0	0	64,800
<b>4. Diagnostic studies in SMEs</b>				
-Diagnosis of SMEs, year 2	23,730	94,920	0	118,650
- Diagnosis of SMEs, year 3	31,640	126,560	0	158,200
- Diagnosis of SMEs, year 4	39,550	158,200	0	197,750
- Experts on the subject	64,800	0	0	64,800
<b>5. Developing the strategic plan</b>				
- Developing the strategic plan, year 2	23,730	94,920	0	118,650
- Developing the strategic plan, year 3	31,640	126,560	0	158,200
- Developing the strategic plan, year 4	39,550	158,200	0	197,750
- Experts on the subject	64,800	0	0	64,800
<b>6. Implementing the plan/supervision</b>				
- Follow-up visits by experts on the subject	64,800	0	0	64,800
- Evaluation, independent consultant, starting in year 3	47,500			47,500
<b>Component 3: Dissemination of the results and project size</b>				
<b>1. Commissioning the design of the corporate look</b>	5,000	0	0	5,000
<b>2. Launching the project</b>				
- Invitations and follow-up	600	0	0	600
- International consultant	1,500	0	0	1,500
- Travel expenses	2,000	0	0	2,000
- Per diem	1,000	0	0	1,000
- Room rental	400	0	0	400
- Materials for participants	450	0	0	450
- Auxiliary materials for speakers	200	0	0	200
- Coffee break	0	1,500	0	1,500
<b>3. Awareness-raising workshops</b>				
- Invitations and follow-up	1,800	0	0	1,800
- Materials for participants	1,800	0	0	1,800
- Room rental	0	0	3,600	3,600
- Coffee break	0	0	4,500	4,500
<b>4. Building alliances</b>				
- Project director's fees	0	0	24,000	24,000
<b>5. Participation in fairs and conferences</b>				
- Travel expenses	0	4,000	0	4,000
- Per diem	0	750	0	750
- Materials for participants at fairs	36,000	0	0	36,000
<b>6. Project conferences to disseminate the results</b>				
- Invitations and follow-up	1,200	0	0	1,200
- International consultant	3,000	0	0	3,000

VINCULAR-MIF PROJECT	TOTAL			
	MIF	PUCV		Subtotal
		In cash	In kind	
- Travel expenses	4,000	0	0	4,000
- Per diem	2,000	0	0	2,000
- Room rental	0	800	0	800
- Materials for participants	900	0	0	900
- Auxiliary materials for speakers	0	400	0	400
- Coffee break	0	3,000	0	3,000
<b>7. Disseminating the results to the media</b>				
- Publications	9,600	0	0	9,600
- Disseminating results in PUCV media outlets			96,000	96,000
<b>Program administration</b>	<b>281,230</b>	<b>2,300</b>	<b>86,400</b>	<b>369,930</b>
<b>1. Administrative personnel</b>				
- Project manager	153,600	0	0	153,600
- Administrative official	105,600	0	0	105,600
- Assistant	0	0	24,000	24,000
<b>2. Other</b>				0
- Rental	0	0	33,600	33,600
- Office and service expenses	0	0	28,800	28,800
<b>3. Equipment</b>				
- Laptops for experts and manager	15,030	2,300	0	17,330
- Upgrading infrastructure	7,000			7,000
<b>Evaluation</b>	<b>50,000</b>	<b>0</b>	<b>0</b>	<b>50,000</b>
<b>Audit</b>	<b>12,000</b>	<b>0</b>	<b>0</b>	<b>12,000</b>
<b>Contingencies 3%</b>	<b>48,260</b>	<b>55,770</b>	<b>0</b>	<b>104,030</b>
<b>TOTAL</b>	<b>1,250,000</b>	<b>988,660</b>	<b>261,340</b>	<b>2,500,000</b>
	1,250,000	1,250,000		2,500,000
	50%	50%		
Annual MIF disbursement	50%	40% 50%	10%	100%
MIF project disbursement				



**ADOPTION OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES IN SMALL AND MEDIUM-SIZED ENTERPRISES (TC-03-05-03-2)**

**OTHER SIMILAR OR RELATED MIF INITIATIVES**

<b>Project name</b>	<b>Executing agency and amount</b>	<b>Description/Objectives</b>	<b>Date of approval by Donors Committee and disbursement percentage</b>
<p>ATN/ME-8381-RG</p> <p>Program to promote corporate social responsibility</p>	<p>Fundación Acción Empresarial</p> <p>Amount: US\$1,100,000</p>	<p>The goal is for companies to apply corporate social responsibility (CSR) practices in the participating countries as a way to boost competitiveness. The purpose of the project is to build the capacity of local CSR service providers and promote the adoption of CSR practices in companies, particularly SMEs.</p>	<p>30 July 2003</p> <p>0% disbursed as of 12 November 2003</p>